Feb. 1st, 2024

Pacific Industrial Co., Ltd.

Briefing for Fiscal Year 2023 Third Quarter Q & A

《Q3 Financial Results/Full year Forecast》

Q1 : Based on the Q3 results, the company has revised its full-year forecast upward, but it appears conservative.　Is there a potential that financial performance will be higher than expected?

A1 : The full-year forecast has been revised to reflect the Q3 results that exceeded the previous forecast. We hope there is a potential of a higher financial performance in Japan and overseas, we will work to exceed our announced forecast.

Q2 : What is the impact of shutdowns due to the certification irregularities of Toyota Industries Corporation's engine?

A2 : Through January in 2024, there has been a reduction in automobile production in Japan of around 17,000 units. That includes shutdowns due to the certification irregularities, the 2024 Noto earthquake and its inspections, etc. We expect sales and profits to decrease by that amount. The impact from February onward is still uncertain. That is only in Japan; overseas operations are proceeding as planned. Although there will be a decrease in sales, the overall impact is expected to be limited. However, if the production cut is prolonged, it may become difficult to achieve the forecasted performance.

Q3: Regarding the valve business, the operating income ratio improved to 9.8% in Q3, and the forecast for Q4 has been lowered. What is the background to this improvement?

A3 : In the valve business, operating income was 7.2% in Q2, and the improvement in the income ratio in Q3 was due to the weaker yen and the effect of price pass-on activities to offset the sharp rise in material and other prices. In Q4, the ratio of fixed costs increased due to the decrease in sales volume, pushing down the profits. There are some areas where we have a slightly conservative outlook. Since we have assumed an exchange rate of 140 yen/$ for Q4, if the yen depreciates further or if the sales volume increases to the Q3 level, the actual results may be higher.

Q4 : Operating income was revised upward by 1 billion yen from the previous forecast. What are the factors behind this?

A4 : The upward revision of operating income of 1 billion yen consists of 0.8 billion yen for the stamping business and 0.2 billion yen for the valve business. In the stamping business, increased sales volume resulted in an increase of 0.1 billion yen, suppression of sales price reductions resulted in an increase of 0.4 billion yen, and the remainder was due to foreign exchange gains, cost improvements, and lower labor costs. The valve business was +0.2 billion yen due to a slight decrease in sales volume and foreign exchange gains. Furthermore, YoY Comparison shows that the increase in sales volume in Japan has had a large impact. In addition, production status of our U.S. site has stabilized this fiscal year, and human resources have been retained, creating a positive cycle. We expect the positive trends in Japan and the United States to continue in the next fiscal year and beyond.

《Outlook for the next year》

Q5 : In response to a series of revelations of fraud within the Toyota Group, there is talk that the Toyota Group as a whole will consider ways to optimize production.
Are there any moves to actually review Toyota's production plan or to request stronger quality control? Also, please let me know if you have any new information, such as the possibility that pressure on price revisions will be eased.
A5: Regarding our production volume plan, we are considering the assumptions for next fiscal year, taking into consideration how much risk we should take from the 3.4 million units. There has been a slight decline in February-March, but plans have not yet been shared for the next term. We need to wait for the new information from the customer. We believe that we can learn from this situation and take positive action to review our manufacturing sites. There is currently no specific shared information from customers regarding sales price revisions.

Q6 : External factors for FY2024 include that production volume will not increase significantly, the yen will not depreciate so much, and costs including labor costs are increasing due to inflation. Based on these predictions, is it correct to assume that profits will not grow significantly and that you plan to be conservative in your business performance forecast?
A6 :　As for the assumptions for the FY2024 plan, the biggest factor is production volume. As it will be at a sufficiently high level in 2023, I think that our company will be able to generate sufficient profits even if it stays at the same level or decreases slightly. Regarding costs, there are factors that will increase costs, such as rising labor costs, energy costs, and raw material costs. In addition, when you include the fact that the construction of a new plant in Japan will incur approximately 1.6 billion yen per year in depreciation costs, there are many factors that will negatively impact profits. We are continuing to work to improve the order price per vehicle. It is expected that this will also have a positive impact on newly built plant in Japan. The capacity utilization rate of our new plant is planned to be approximately half in 2024, 80% in 2025, and fully occupied in 2026. Although there may be a period of temporary

stagnation in FY2024, we expect that the depreciation burden will be steadily resolved and that past improvements and development results will be fully realized from FY2025 onwards.

《About others》

Q7: Regarding the improvement of investment efficiency and balance sheet shown in the slide "Future Initiatives" of "2-10 For the Next Fiscal Year" of the briefing, I would like to know if you are considering measures other than selling cross-shareholdings.
A7 : Because of the high cross-shareholdings as a percentage of our net assets, our main strategy is to gradually sell off shares with the goal of keeping the cross-shareholdings below 20%.

Q8 : In the slide "2-8 Topics" of the briefing, it was explained that many of your parts were adopted in the Toyota Alphard/Vellfire, and the amount of orders received increased significantly. Please tell us the background of this increase.
A8 : Originally, minivans were a weak segment for us. The Alphard/Vellfire is a model that can be expected to have high sales over a long period of time. For this reason, we proactively made proposals to customers such as the use of ultra-high tensile strength materials at an early stage before the model change. This was recognized and we were able to receive more orders than before. By strengthening weak segments to the same level as others, the overall balance has been improved. We will continue to promote such proposal activities in the future.